



General Assembly

February Session, 2008

Raised Bill No. 592

LCO No. 2734

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Referred to Committee on Finance, Revenue and Bonding

Introduced by:
(FIN)

AN ACT ESTABLISHING TAX CREDITS FOR ANGEL INVESTORS.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. (NEW) (*Effective July 1, 2008, and applicable to income years*
2 *commencing on or after January 1, 2008*) (a) As used in this section:

3 (1) "Angel investor" or "investor" means an accredited investor, as
4 defined by the Securities and Exchange Commission, who may seek
5 active involvement in the business, such as consulting and mentoring,
6 but "angel investor" or "investor" does not include (A) persons
7 controlling fifty per cent or more of the Connecticut business invested
8 in, (B) a Connecticut venture capital company, or (C) any bank, bank
9 and trust company, insurance company, trust company, national bank,
10 savings association or building and loan association for activities that
11 are a part of its normal course of business;

12 (2) "Cash investment" means money or money equivalent in
13 consideration for qualified securities;

14 (3) "Connecticut business" means any business owned by an
15 individual or a partnership, association or corporation, and domiciled

16 in Connecticut, or any corporation, even if a wholly-owned subsidiary
17 of a foreign corporation, that does business primarily in Connecticut,
18 or does substantially all of such business's production in Connecticut;

19 (4) "Qualified securities" means (A) any form of equity, including a
20 general or limited partnership interest, common stock, preferred stock,
21 with or without voting rights, without regard to seniority position and
22 whether or not convertible into common stock, any form of
23 subordinate or convertible debt, or both, with warrants or other means
24 of equity conversion attached; or (B) a debt instrument, including a
25 note or debenture that is secured or unsecured, subordinated to the
26 general creditors of the debtor and requiring no payments of principal,
27 other than principal payments required to be made out of any future
28 profits of the debtor, for at least a seven-year period after
29 commencement of such debt instrument's term.

30 (b) There shall be allowed a credit against the tax imposed under
31 chapter 229 of the general statutes for a cash investment in the
32 qualified securities of a Connecticut business by an angel investor. The
33 credit shall be in an amount equal to thirty per cent of such investor's
34 cash investment, provided no credit shall be greater than one hundred
35 twenty-five thousand dollars.

36 (c) To be an eligible cash investment qualifying for a tax credit
37 pursuant to this section, such investment shall be in a business that (1)
38 has been listed as a qualified Connecticut business pursuant to
39 subsection (d) of this section, (2) has had annual gross revenues of less
40 than five million dollars in the most recent income year of the business,
41 (3) has fewer than twenty-five employees, more than half of whom
42 reside in this state, (4) have been operating in this state for less than ten
43 consecutive years, (5) is primarily owned by the management of the
44 business and their families, and (6) received less than one million
45 dollars in the tax credits provided by this section. No investor may
46 claim a credit pursuant to this section for cash investments in
47 Connecticut Innovations, Inc.

48 (d) (1) A Connecticut business may apply to the Commissioner of
49 Economic and Community Development for inclusion on a listing of
50 Connecticut businesses qualified to receive cash investments eligible
51 for tax credits pursuant to this section. The application shall include
52 (A) the name of the business and a copy of the organizational
53 documents of such business; (B) a business plan, including a
54 description of the business and the management, product, market and
55 financial plan of the business; (C) a statement of the business
56 innovative and proprietary technology, product or service; (D) a
57 statement of the potential economic impact of the enterprise, including
58 the number, location and types of jobs expected to be created; (E) a
59 description of the qualified securities to be issued, the consideration to
60 be paid for the qualified securities, the amount of any tax credits
61 requested and the earliest year in which such tax credits may be
62 redeemed; (F) a statement of the amount, timing and projected use of
63 the proceeds to be raised from the proposed sale of qualified securities;
64 and (G) such other information as said commissioner may require.

65 (2) The Commissioner of Economic and Community Development
66 shall, on or before August 1, 2008, and monthly thereafter, compile a
67 list, categorized by estimated amount of tax credit and type of
68 qualified securities offered, submitted by qualified Connecticut
69 businesses.

70 (3) At such time as a qualified Connecticut business on the list
71 created pursuant to subdivision (2) of this subsection has entered into
72 an agreement with an angel investor, such business shall notify the
73 Commissioner of Economic and Community Development of such
74 agreement, including the amount of the investment and information as
75 to the eligibility of the angel investor for a tax credit pursuant to this
76 section. Upon such notification, said commissioner shall reserve the
77 amount of the tax credit attributable to such agreement. The aggregate
78 amount of all tax credits that may be reserved for this program shall
79 not exceed fifteen million dollars in any one fiscal year.

80 (4) The Commissioner of Economic and Community Development
81 shall notify the Commissioner of Revenue Services of the amount of
82 the tax credit that may be issued to an angel investor.

83 (e) (1) The amount of such credit allowed to any investor pursuant
84 to this section shall not exceed the amount of tax due from such
85 investor under chapter 229 of the general statutes with respect to such
86 taxable year. Any tax credit not used in the taxable year during which
87 the cash investment was made may be carried forward for the five
88 immediately succeeding taxable years until the full credit has been
89 allowed.

90 (2) Any credit allowed pursuant to this section may be sold,
91 assigned or otherwise transferred, in whole or in part, to one or more
92 taxpayers, and such taxpayers may sell, assign or otherwise transfer, in
93 whole or in part, such credit. If an investor sells, assigns or otherwise
94 transfers a credit to another taxpayer, the transferor and transferee
95 shall jointly submit written notification of such transfer to the
96 Commissioner of Revenue Services not later than thirty days after such
97 transfer. If such transferee sells, assigns or otherwise transfers a credit
98 under this section to a subsequent transferee, such transferee and such
99 subsequent transferee shall jointly submit written notification of such
100 transfer to the Commissioner of Revenue Services not later than thirty
101 days after such transfer. The notification after each transfer shall
102 include the credit certificate number, the date of transfer, the amount
103 of such credit transferred, the tax credit balance before and after the
104 transfer, the tax identification numbers for both the transferor and the
105 transferee, and any other information required by the Commissioner of
106 Revenue Services. Failure to comply with this subdivision shall result
107 in a disallowance of the tax credit until there is full compliance on the
108 part of the transferor and the transferee and for a second transfer, on
109 the part of the transferee, and the subsequent transferee.

<p>This act shall take effect as follows and shall amend the following sections:</p>
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Section 1	<i>July 1, 2008, and applicable to income years commencing on or after January 1, 2008</i>	New section
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Statement of Purpose:

To increase entrepreneurial activity in Connecticut by providing a tax credit to "angel investors" who make investments in very new businesses.

[Proposed deletions are enclosed in brackets. Proposed additions are indicated by underline, except that when the entire text of a bill or resolution or a section of a bill or resolution is new, it is not underlined.]